

Message Text

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ACTION EB-07

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TAGS: EIND, KS

SUBJECT: KOREA TO EMPHASIZE ELECTRONIC PRODUCTION

SUMMARY: THE ROK IS SEEKING TO BECOME A MAJOR ELECTRONICS PRODUCER AND EXPORTER OVER THE NEXT FIVE YEARS. THE GOVERNMENT WILL PROMOTE THE PRODUCTION OF 57 ITEMS, PRINCIPALLY COMPONENTS, AND PROVIDE FINANCIAL ASSISTANCE WHERE NECESSARY. FOREIGN CAPITAL AND TECHNOLOGY WILL BE ENCOURAGED. END SUMMARY

1. UNDER THE FOURTH FIVE-YEAR DEVELOPMENT PLAN, THE ROK INTENDS TO DEVELOP THE ELECTRONICS INDUSTRY AS A MAJOR EXPORT INDUSTRY WITH A SHIFT OF EMPHASIS FROM LABOR INTENSIVE TO TECHNOLOGY INTENSIVE ITEMS. THE PLAN CALLS FOR AN EXPORT TARGET OF \$2.5 BILLION IN 1981 AND A TOTAL INVESTMENT IN PLANT, EQUIPMENT, AND R AND D OF NEARLY \$600 MILLION.

2. IN ORDER TO REACH THESE GOALS, THE GOVERNMENT PLANS TO PROMOTE THE PRODUCTION OF 57 ELECTRONICS ITEMS (9 INDUSTRIAL, 41 PARTS AND COMPONENTS AND 7 CONSUMER PRODUCTS). DUE TO LARGE INITIAL INVESTMENTS AND
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TECHNOLOGY INVOLVED, THE ROKG INTENDS TO PARTICIPATE

AND EXTEND FINANCIAL ASSISTANCE FOR THE PRODUCTION OF NINE ITEMS: FABRICATED SILICON WAFERS, FABRICATED WAFERS FOR LIGHT EMITTING DIODES, MINI/MICRO COMPUTERS, MICROPROCESSORS, COMPUTER PERIPHERAL EQUIPMENT, TRANSMISSION EQUIPMENT, ELECTRONIC SWITCHING SYSTEMS, COMPUTER TERMINALS (CRT DISPLAYS) AND COMPUTER SOFTWARE. IN ADDITION TO GOVERNMENT FUNDING, AN IBRD LOAN OF \$20 MILLION WILL BE SOUGHT.

3. PRIVATE FOREIGN CAPITAL AND TECHNOLOGY TRANSFERS WILL BE ENCOURAGED. ROYALTIES PAYABLE FOR TECHNOLOGICAL TRANSFERS IN THE SEMI-CONDUCTOR AND COMPUTER INDUSTRIES CAN BE CAPITALIZED. PRODUCTION EQUIPMENT FOR SEMI CONDUCTOR AND OTHER ADVANCED COMPONENTS WILL BE EXEMPT FROM DUTY AND RECEIVE SPECIAL DEPRECIATION ALLOWANCES.

4. OTHER ITEMS TO BE ENCOURAGED AMONG PRIVATE BUSINESS ENTERPRISES INCLUDE: TAPE RECORDERS, RECORD PLAYERS, AMPLIFIERS, ELECTRONIC WATCHES, VIDEO TAPE RECORDERS, COLOR TV, ELECTRONIC RANGES, DESK CALCULATORS, ELECTRONIC MEASURING INSTRUMENTS, RADIO COMMUNICATION EQUIPMENT (SW AND VHF), LASERS, HIGH PURITY SILICON, WAFERS, GOLD-ALUMINUM WIRES, LEAD FRAMES, ELECTRONIC GRADE GASES, LIQUID CRYSTAL DISPLAY, CRYSTAL OSCILLATORS, SILVER OXIDE BATTERIES, QUARTZ CRYSTAL, LSI'S, MEMORY PLANES, PCB FOR ELECTRONIC WATCHES, KEYBOARDS, SWITCHES AND CONNECTORS, SHADOW MASKS, COLOR TV TUBES, CTV DEFLECTION YOKES, CTV FLYBACK TRANSMISSION, CTV TUNERS, CTV TUBE GLASS, TAPE DECK MECHANISMS, MAGNETIC HEADS FOR TAPE RECORDERS, MINI/MICRO MOTORS, CARTRIDGES FOR RECORD PLAYERS, TONE ARMS, MAGNETIC TAPE, MAGNETIC MATERIALS, RESISTOR MATERIALS, INDUCTOR MATERIALS, CONDUCTOR MATERIALS, MULTILAYER PCB'S, RELAYS, FLEXIBLE PCB'S, MICROPHONES, SPEAKERS, FILTERS, AND ELECTRONIC AUTOMOTIVE PARTS.

5. WE UNDERSTAND THAT THE GOVERNMENT HAS BEEN CONSULTING WITH LOCAL BUSINESSMEN ON THE BASIS OF ASCERTAINING WHICH ITEMS THE LATTER WOULD BE INTERESTED IN PRODUCING. LIMITED OFFICIAL USE

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A FIRM WOULD DRAW UP PRODUCTION PLANS ON THE BASIS OF ITS INTERESTS AND SUBMIT THEM TO THE GOVERNMENT FOR APPROVAL. THIS WOULD PREVENT OVER-CONCENTRATION OR DUPLICATION IN CERTAIN AREAS AND ENSURE THAT A WIDE RANGE OF PRODUCTS WILL, IN FACT, BE PRODUCED. SO FAR WE HAVE NOT HEARD OF ANY SPECIFIC APPROACHES TO FOREIGN BUSINESSMEN, BUT WE UNDERSTAND FIRST PREFERENCE WILL BE GIVEN TO U.S. INVESTORS FOLLOWED BY

EUROPEAN AND THEN JAPANESE.

6. COMMENT: THE GOVERNMENT'S PROGRAM APPEARS AMBITIOUS BUT REALIZABLE. IN 1975 KOREA EXPORTED ELECTRONIC ITEMS WITH A VALUE OF \$581 MILLION AND INDICATIONS ARE THAT ELECTRONIC EXPORTS SHOULD SURPASS \$700 MILLION THIS YEAR. THE \$2.5 BILLION TARGET ASSUMES A COMPOUND ANNUAL GROWTH RATE OF 27.5 PERCENT FROM 1975, WELL WITHIN THE REALM OF PROBABILITY. MOREOVER, A MAJORITY OF THE COMPONENTS ENVISAGED ARE TECHNOLOGICALLY FEASIBLE FOR LOCAL PRODUCTION, ALTHOUGH SOME OF THE MORE ADVANCED SEMI-CONDUCTORS AND COMPUTER EQUIPMENT MAY INITIALLY REQUIRE CLOSE TIES WITH OR INVESTMENTS BY ONE OR MORE OF THE MAJOR ELECTRONIC PRODUCERS. IF THE ROK'S GOALS ARE MET, IT WILL BECOME A MAJOR COMPONENT PRODUCER BY THE EARLY 1980'S. THE AMOUNT ALLOCATED FOR R AND D (\$113 MILLION OVER THE NEXT FIVE YEARS) ALSO AUGURS WELL FOR THE LONG RANGE DEVELOPMENT OF KOREA'S ELECTRONICS INDUSTRY.
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